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SUBJECT: TAIWAN IT INDUSTRY DISCUSSES STANDARDS WITH PRC

Classified By: AIT Director Douglas H. Paal, Reason 1.4 d

Summary

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**¶11. (C)** A delegation led by opposition politicians but composed mainly of Taiwan information technology (IT) manufacturing executives visited Beijing July 5-6 to discuss industry standards with PRC officials and executives. The discussions yielded few concrete results. However, Taiwan firms agreed to help the PRC test its third generation mobile telecommunications (3G) standard. The group traveled under the auspices of the Sinocon Industrial Standards Foundation (SISF), a new industry organization with close ties to the opposition Kuomintang (KMT) and whose goal is to enable Taiwan high-tech firms to participate in the PRC's efforts to develop its own industrial standards. To date the Taiwan government has not objected to these discussions. Although the results of these discussions have only minor implications for U.S. security and commercial interests, the formation of a new Taiwan industry organization with the mission of cooperating with the PRC on industry standards is an important development. This trip also highlights the continuing efforts of the KMT to erode support for the ruling Democratic Progressive Party (DPP) by portraying itself as the party that can do business with the PRC. End summary.

Standards Discussions Yield Few Concrete Results

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**¶12. (U)** A delegation composed mainly of Taiwan information technology (IT) manufacturing executives visited Beijing for the July 5-6 "Cross-Straight Technology Standards Forum for the IT Industry." The delegation traveled under the auspices of the Taiwan-based Sinocon Industrial Standards Foundation (SISF), a Taiwan industry organization whose chairman is Kuomintang (KMT) Vice Chairman Chiang Ping-kun. As part of the visit, Chiang and other delegation members met with PRC Vice Premier Wu Yi and Vice Minister of Information Industry Jiang Yaoping.

**¶13. (C)** In the forum, Taiwan executives discussed four different types of IT industry standards with Mainland business and government representatives. Most press attention has focused on discussion of third generation (3G) mobile telecommunications standards. The PRC is trying to promote its own 3G standard -- TD-SCDMA -- which would compete with CDMA2000 (developed by U.S. firm Qualcomm) and W-CDMA (the standard supported by Europe and Japan). Some Taiwan media reports portrayed the forum as having reached a consensus whereby Taiwan firms would assist the PRC in promoting TD-SCDMA. However, Taiwan Electrical and Electronic Manufacturers' Association (TEEMA) Executive Director Luo Huai-jia, who attended the forum and whose organization played a leading role in organizing the visit, described the results to AIT/T as an agreement that Taiwan firms would assist in testing the TD-SCDMA standard.

**¶14. (C)** The forum also addressed industry standards for the compression, decompression and manipulation of audio and video digital data. The PRC is developing an audio visual coding standard (AVS) in this field. However, according to Luo, development has not advanced as far as development of the 3G TD-SCDMA standard and the discussions in Beijing were less conclusive. He told AIT/T that the discussion amounted to little more than an exchange of information about the potential for standard development. He also described discussions on thin-film transistor liquid crystal display (TFT-LCD) flat panel display testing standards and memory card standards as mainly information exchanges.

KMT Capitalizing on Economic Concerns of IT Industry

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**¶15. (SBU)** The Sinocon Industrial Standards Foundation (SISF), which sponsored the trip to Beijing, was first proposed in August 2004 with the goal of allowing Taiwan IT firms to participate in the PRC's efforts to develop its own industrial standards. SISF formally began operations

in February 2004, and this trip to China is its first major activity. It has close links to the Pan-Blue coalition. The Chairman of SISF is KMT Vice Chairman P.K. Chiang. Former People First Party (PFP) legislator Pang Chien-kuo is also an active member of SISF.

16. (SBU) Because of strong economic interests in closer ties with the Mainland, Taiwan's IT firms are generally more supportive of Pan-Blue positions on cross-Straits issues, regardless of the personal political preferences of executives in the industry. Taiwan's IT sector relies heavily on the PRC as a production base for hardware manufacturing. TEEMA currently estimates that 72 percent of IT equipment produced by Taiwan firms is manufactured in the PRC. Recent moves by prominent IT executives to distance themselves from the Chen Shui-bian administration have underscored the political effect of cross-Straits economic interests on leaders in the industry. Chi-Mei founder Hsu Wen-lung and Acer founder Stan Shih have both within the last six months chosen to decline additional terms as Senior Presidential Advisors. (Note: United Microelectronics Corporation (UMC) Chairman Robert Tsao made a similar announcement last month. However, he claimed that the reason he would decline another term as a Senior Presidential Advisor was to reduce the effect of political influence on the handling of the investigation of UMC's relationship with PRC semiconductor manufacturer He Jian. End Note.)

MAC's Silence

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17. (C) Although the Mainland Affairs Council has called on the KMT-dominated Taiwan Provincial Farmers Association to explain its discussions with PRC officials on fruit exports, the Taiwan government has not yet condemned or questioned the appropriateness of the SISF sponsored visit. According to Mainland Affairs Council (MAC) Senior Secretary Lee Li-Jane, MAC has no objections to the

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discussions. TEEMA representatives briefed MAC officials before the trip. According to Lee, TEEMA explained the visit as focusing on discussions of "commercial specifications" not national standards. As a result, MAC does not believe that the discussions involved issues of national sovereignty.

Comment - Standards and Cross-Straits Politics Intersect

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18. (C) The actual results of these latest discussions appear to have few implications for U.S. commercial and security interests. Only the TD-SCDMA discussions led to any sort of concrete results. It does not appear that the agreement by Taiwan firms to assist in testing the TD-SCDMA standard will be decisive in helping it compete with W-CDMA and CDMA2000, which have much broader support at this time. However, the formation of a new organization with the mission of including Taiwan's powerful IT firms in the PRC's efforts to develop industry standards is an important development. If SISF shows the ability to mobilize Taiwan industry in effective support of PRC standards and to shape those standards to the advantage of Taiwan manufacturers, it could have a significant effect on U.S. interests.

19. (C) KMT involvement in this initiative is another example of the opposition party attempting to use the PRC's willingness to discuss economic issues with KMT representatives to appeal to different segments of Taiwan society. The SISF trip has drawn less criticism from the Taiwan government and the media than KMT efforts related to fruit exports. This is probably because the IT industry does not represent a source of traditional Pan-Green support like southern Taiwan's farmers. In addition, high levels of investment in the Mainland have made Taiwan's IT manufacturing firms subject to PRC economic pressure for several years now. The efforts of SISF may not yield new political controversy, but they do illustrate the continuing efforts of the KMT to portray itself as the party that can do business with the PRC on more than one front. End comment.

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